



# *Do's and Don'ts for Churches and Religious Organizations*



# “Church”

- Generally, place of worship - not defined in Internal Revenue Code
- Includes:
  - temples, mosques, synagogues, etc.
  - conventions and associations of churches
  - integrated auxiliaries of a church



# Religious Organization

- Includes:
  - nondenominational ministries
  - interdenominational and ecumenical organizations
  - entities whose principal purpose is the study or advancement of religion



## “Church”

- Must comply with requirements of §501(c)(3)
- Form 1023 *not* required
- *Not* listed in Publication 78, unless Form 1023 filed
- Exempt from filing Form 990
- Cannot make lobbying election

## Religious Organization

- Must comply with requirements of §501(c)(3)
- Form 1023 required if gross receipts > \$5,000
- Listed in Publication 78
- Must file Form 990 or 990-EZ
- Can make lobbying election



# Jeopardizing Tax Exempt Status

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- Inurement and private benefit
- Substantial lobbying activity
- Political campaign activity



# Lobbying

... attempting to influence legislation.

- Measurement methods
  - “Substantial Part” test - violation results in excise tax and revocation of exemption,
  - “Expenditure” test - violation results in excise tax and/or revocation of exemption
    - Only applicable to religious organizations - must make election on Form 5768.



# Political Activity

Direct and indirect candidate support:

- Contributions
- Participation in campaigns
- Public statements for/against a particular candidate

**Absolute Prohibition!**



# Unrelated Business Income

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- Trade or business activity
  - Regularly carried on
  - Unrelated to exempt purpose





# Unrelated Business Income - Exceptions

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- Substantially all work performed by volunteers
- Activity conducted primarily for convenience of members
- Trade or business involves sale of donated merchandise



# Unrelated Business Income - Examples

- Advertising
- Gaming activities
- Sale of merchandise & publications
- Parking lot for general public
- Rental income, if
  - Debt-financed
  - Personal property



# Inurement/Private Benefit

- Inurement to insiders such as ministers, church board members, officers, employees, etc., is absolutely prohibited.
- Private benefit must be *incidental* to either insiders *or* outsiders.



# Annual Filing Requirements

## Church

## Religious Organization

- Form 990 *not* required
- Form 990-T: gross income from unrelated trade or business ○ \$1,000
- Employment tax returns required for all employees *except* ministers
- Form 990-EZ or 990 required depending on gross receipts & assets
- Form 990-T: gross income from unrelated trade or business ○ \$1,000
- Employment tax returns required for all employees



# Recordkeeping Requirements

- Must maintain records that:
  - Justify right to exemption
  - Enable filing accurate tax and information returns
- Includes:
  - organizing documents & bylaws, minute books, property records, general ledgers, member lists, offerings collected



# Contact Information

- <http://www.irs.gov/eo>
  - for forms, publications or general information on exempt organizations.
- EO Customer Service (toll-free): 1 (877) 829-5500
  - for general questions or assistance with applications or exempt organizations forms.



# **Publications**

- 517 - Social Security and Other Information for Members of the Clergy and Religious Workers
- 526 - Charitable Contributions
- 557 - Tax-Exempt Status for Your Organization
- 598 - Tax on Unrelated Business Income of Exempt Organizations
- 1771 - Charitable Contributions: Substantiation and Disclosure Requirements
- 1828 - Tax Guide for Churches and Religious Organizations
- 3079 - Gaming Publication for Exempt Organizations